



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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July 5, 2007

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Final Audit Report: California Used Oil Recycling Fees—BP Products North America, Inc.

Enclosed is our audit report on the Used Oil Recycling Fee Returns submitted by BP Products North America, Inc. (BPPNA) for the period January 1, 2004 through June 30, 2006. The Department of Finance, Office of State Audits and Evaluations, performed this audit under an interagency agreement with the California Integrated Waste Management Board. The scope of work included a review of reported fees and oil sales, internal control, and compliance with state law.

BPPNA chose not to submit a written response; therefore, we are issuing the report as final. The enclosed report is for your information and use. We have also sent a copy to the BPPNA. In accordance with Finance's policy of increased transparency, the final report will be placed on the Finance website.

We appreciate the assistance and cooperation of BPPNA staff during our audit. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Tom Estes, Deputy Director, Administration and Finance, California Integrated Waste Management Board
Mr. Roger Ikemoto, Grants and Audits Manager, Administration and Finance Division, California Integrated Waste Management Board
Ms. Julie Arico, Accounting Administrator, Administration and Finance Division, California Integrated Waste Management Board
Ms. Bonnie Cornwall, Supervisor, Used Oil and Household Hazardous Waste Unit, California Integrated Waste Management Board
Mr. W. Tom Baker, Excise Tax Audit Manager, BP America, Inc.

AN OIL RECYCLING FEE AUDIT

BP Products North America, Inc. Used Oil Recycling Fee Returns For the Period January 1, 2004 through June 30, 2006

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board).

BP Products North America, Inc. (BPPNA) reported \$379,891 in oil recycling fees to the Board for the period January 1, 2004 through June 30, 2006. The objectives of this audit were:

- To determine whether BPPNA accurately reported oil sales and computed fees.
- To assess whether BPPNA's internal control system allows for the accurate accounting of oil sales subject to the California Oil Recycling Enhancement Act.
- To verify BPPNA's compliance with laws and regulations applicable to the California Oil Recycling Enhancement Act.

We did not assess the efficiency or effectiveness of program operations; this responsibility lies with the Board. The responsibility for financial reporting and compliance rests with BPPNA.

This report is intended for the information and use of Board and BPPNA management. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Frances Parmelee, CPA
Manager

Rick Cervantes, CPA
Supervisor

Robert Castillo



INDEPENDENT AUDITOR'S REPORT

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

We have audited the accompanying *Schedule of Lubrication Oil Sales, Exempt Transactions, and Fees Owed* and *Schedule of Industrial Oil Sales* (Schedules) with respect to the California Used Oil Recycling Fee Returns submitted by BP Products North America, Inc. (BPPNA) to the California Integrated Waste Management Board (Board) for the period January 1, 2004 through June 30, 2006. The Schedules were prepared from BPPNA's records and are the responsibility of BPPNA's management. Our responsibility is to express an opinion on the Schedules based on our audit.

We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide reasonable assurance as to whether the Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used by management. The accompanying Schedules were prepared as described in Note 3. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the accompanying *Finding and Recommendations* section, oil recycling fees were overstated by \$248,936, which represents 66 percent of total reported fees. In addition, industrial oil sales were understated 130,907 gallons, which represents 60 percent of total reported industrial oil.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the Schedules referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, BPPNA's lubrication oil sales, exempt transactions, and fees owed for the period January 1, 2004 through June 30, 2006.

Compliance

As part of obtaining reasonable assurance about whether the Schedules are free of material misstatement, we performed tests of BPPNA's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Generally Accepted Government Auditing Standards* and is described in the accompanying *Finding and Recommendations* section of the report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BPPNA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedules and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect BPPNA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedules. The reportable condition is described in the *Finding and Recommendations* section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition in the *Finding and Recommendations* section to be a material weakness.

This report is intended solely for the information and use of Board and BPPNA management, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record, and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

November 8, 2006

SCHEDULE OF LUBRICATION OIL SALES, EXEMPT TRANSACTIONS, AND FEES OWED

BP Products North America, Inc.
For the Period January 1, 2004 through June 30, 2006

	<u>Per Fee Payer Returns</u>	<u>Per BPPNA's Records</u>	<u>Differences</u>
Sales			
Gross Lubrication Oil Sold (Gallons)	27,492,741	34,841,037	7,348,296
Less: Exempt Transactions (Gallons)	<u>(25,118,423)</u>	<u>(34,022,567)</u>	<u>(8,904,144)</u>
Total Lubrication Oil Sold (Gallons Subject to Fee)	<u>2,374,318</u>	<u>818,470</u>	<u>(1,555,848)</u>
Sales @ \$0.16/gallon	<u>\$ 379,891</u>	<u>\$ 130,955</u>	<u>\$ (248,936)</u>

The accompanying notes are an integral part of this schedule.

SCHEDULE OF INDUSTRIAL OIL SALES

BP Products North America, Inc.
For the Period January 1, 2004 through June 30, 2006

	<u>Per Fee Payer Returns</u>	<u>Per BPPNA's Records</u>	<u>Difference in Gallons</u>
Industrial Oil Sold (Gallons)	218,115	349,022	130,907

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULES

BP Products North America, Inc. For the Period January 1, 2004 through June 30, 2006

NOTE 1 Description of the Reporting Entity

BP Products North America, Inc. (BPPNA) is a wholly owned subsidiary of BP p.l.c. which manufactures and markets petroleum products. BPPNA corporate offices are located in Houston, Texas. The principle activities of BPPNA are exploration and production, gas, power and renewables, refining and marketing, pipelines and the sale of its petrochemical products worldwide.

NOTE 2 General Program Information

The Legislature enacted the California Oil Recycling Enhancement Act (Act) (Public Resources Code Sections 48600 through 48691) to reduce the illegal disposal of used oil, and to recycle and reclaim used oil in order to recover valuable natural resources and to avoid damage to the environment and threats to public health.

This Act provides the Board authority to adopt a used oil-recycling program. The Act also gives the Board responsibility and authority to receive quarterly reports from companies selling oil in California. Based on the level of reported oil sales, the companies are required to pay fees to the Board.

The Act describes the Board's process for depositing the fees into the California Used Oil Recycling Fund. Recycling incentive payments are the primary allowable fund appropriations.

NOTE 3 Basis of Presentation

The *Schedule of Lubrication Oil Sales, Exempt Transactions, and Fees Owed* and the *Schedule of Industrial Oil Sales* (Schedules) were prepared from BPPNA's accounting records. These schedules summarize the fees paid and the lubrication oil sold during the reporting period January 1, 2004 through June 30, 2006.

FINDING AND RECOMMENDATIONS

During our audit, we identified a reportable internal control issue requiring corrective action. The following recommendations, if implemented, will improve the BP Products North America, Inc.'s (BPPNA) fiscal controls.

FINDING

Fee Payer Return Procedures Need Improvement

Condition:

BPPNA did not report accurate lubricating and industrial oil sales. In comparing the amounts reported on the Oil Recycling Fee Returns (Returns) with the BPPNA sales reports and sales invoices, the following errors were identified during our audit:

- Motor Oil Assessment Fees totaling \$248,936 were erroneously reported as Oil Recycling Fees and paid to the Board. Motor Oil Assessment Fees are reported and paid to the California Department of Food and Agriculture.
- Gross lubrication and exempt oil sales were underreported by 7,348,296 and 8,904,144 gallons, respectively. As a result, fee assessable sales were overreported by 1,555,848 gallons.
- Industrial oil sales were underreported by 130,907 gallons. These sales were incorrectly reported as gross lubrication oil and exempt oil sales.

Criteria:

California Public Resources Code (PRC) Section 48671 states that oil manufacturers who sell lubricating or industrial oil in the state shall report to the Board for each month the amount of lubricating or industrial oil sold.

PRC Section 48650 states that all oil manufacturers shall pay to the Board 16 cents for every gallon of lubricating oil sold or transferred in the state.

Reconciliations and second level reviews assist in assuring that Returns are accurately prepared.

Recommendations: The Board should remit \$248,936¹ to the Department of Food and Agriculture.

¹ According to BPPNA, Motor Oil Assessment Fees totaling \$30,250 were erroneously paid to the Board for the July 1, 2006 through September 30, 2006 Return. The \$30,250 overpayment was not audited and is not included in the \$248,936 total. BPPNA stated that it ceased paying the Motor Oil Assessment Fees to the Board commencing with the October 1, 2006 though the December 31, 2006 Return.

Ensure that lubricating and industrial oil sales are properly classified in the information system used to prepare sales reports supporting the Returns.

Report accurate industrial oil sales, lubricating oil sales, and oil recycling fees on the submitted Returns.

Perform second level reviews to ensure the accuracy of system entries and preparation of the Returns.

The Board will make the final determination and resolution of fees owed to the Department of Food and Agriculture.